

Wyoming Economic Challenges in 2016 and a few ideas about what we can do to better our State's future.

June 2016

A snapshot of Wyoming's economy and an outline of a few opportunities for local governments and the State as a whole in the coming year to meet the challenges of different times.

-Mark Gordon, Treasurer

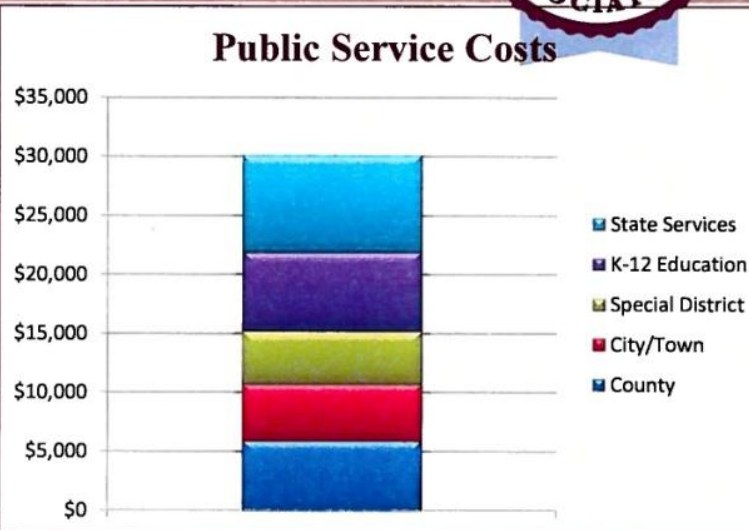
Direct Tax Collections & Public Service Costs 2014

For a 3-person family with income of \$60,000 and owning a home valued at \$160,000



Personal Tax Collections

Retail Sales	\$ 1,000	} \$ 2,960
Gasoline	\$ 200	
Cigarettes	\$ 100	
Alcohol	\$ 10	
Vehicle Registration	\$ 450	
Property Tax	\$ 1,200	



Public Service Costs

County	\$ 5,900	} \$30,100
City/Town	\$ 4,800	
Special District	\$ 4,500	
K-12 Education	\$ 6,700	
State Services	\$ 8,200	

Courtesy of the Wyoming Economic Analysis Division



We do alright as citizens of Wyoming paying some of the lowest taxes in the country and enjoying 10 times the benefits which we owe to our extraordinary mineral wealth.

Thank goodness we set some aside for the future because times have not always been so good.

Wyoming's Investments Save Taxpayers More than \$1500 in taxes every year.

In 2015 we returned \$1,750 per Wyoming resident
\$1.02 billion / 580,000 people

	FY 15 (\$ Millions)		FY 14	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Permanent Mineral Trust Fund	\$6,848.9	\$7,172.2	\$6,368.3	\$6,979.1
Permanent Land Funds				
- Common School Perm Land Fund	3,261.7	3,405.3	2,782.3	3,046.5
- University Permanent Land Fund	19.8	20.1	19.3	21.3
- Remaining Permanent Land Funds	175.1	182.7	157.0	171.6
Hathaway Scholarship Fund	552.6	571.3	533.4	575.7
Higher Education Endowment Fund	114.1	118.0	112.2	121.1
Workers Compensation Fund	1,773.0	1,790.8	1,628.0	1,719.5
Tobacco Settlement Fund	84.5	83.4	81.6	82.0
State Agency Pool	<u>6,417.6</u>	<u>6,352.1</u>	<u>6,294.4</u>	<u>6,336.4</u>
Total	\$19,247.3	\$19,695.8	\$17,976.5	\$19,053.2

<u>Investment Income: Distributions by Fund</u>		
	<u>FY 15</u>	<u>FY 14</u>
Permanent Wyoming Mineral Trust Fund	\$494,234,268	\$395,337,466
Common School Permanent Land Fund	216,095,239	172,808,534
University Permanent Land Fund	1,418,395	1,098,504
Remaining Permanent Land Funds	11,774,102	9,360,997
Hathaway Scholarship Endowment Fund	35,858,772	30,959,099
Higher Education Endowment Fund	7,642,287	6,727,157
Workers Compensation Fund	89,494,414	74,079,618
Tobacco Settlement Fund	2,326,048	1,690,078
State Agency Pool	<u>156,512,338</u>	<u>120,112,251</u>
TOTAL	\$1,015,355,83	\$812,173,704

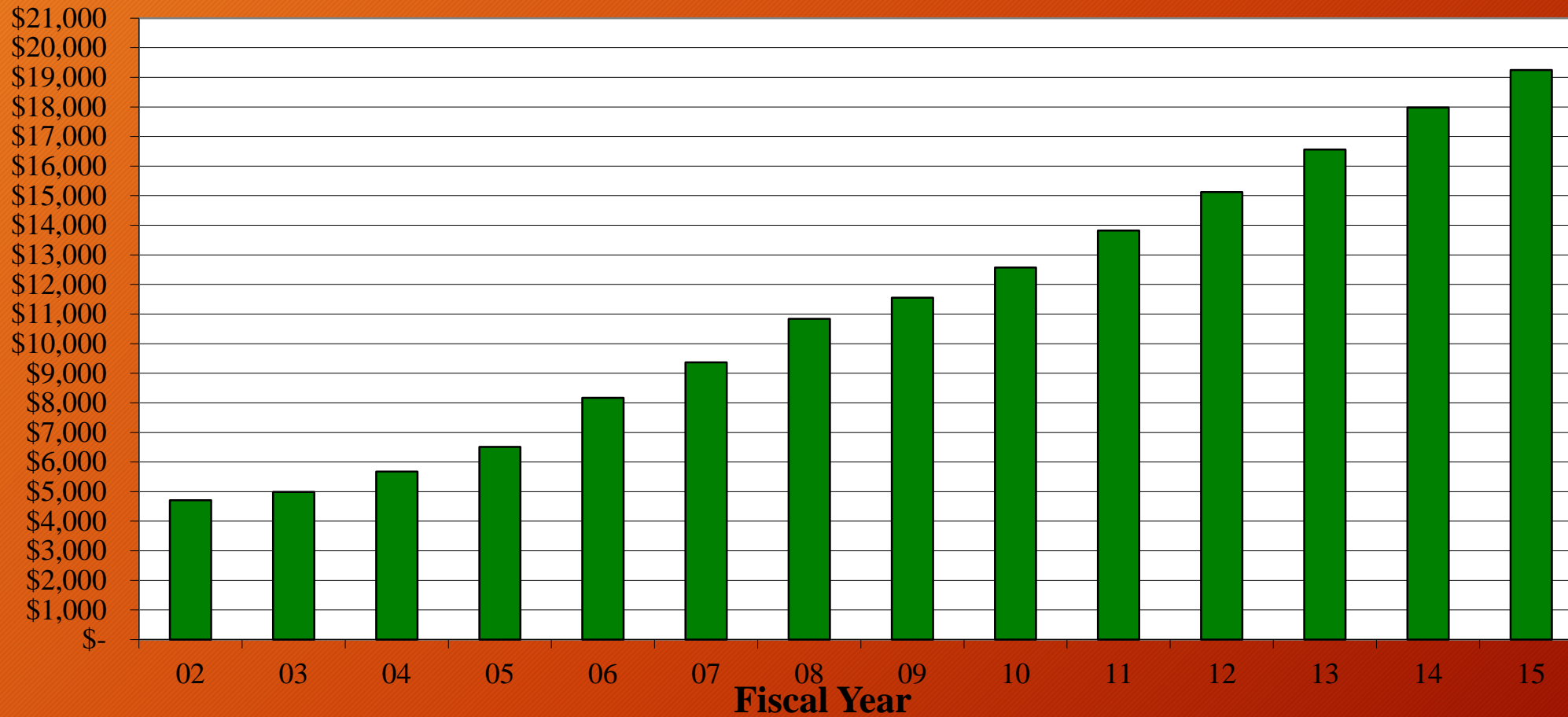
* "Distributed income" is net of management fees paid and accrued.

Annual Report available at:
treasurer.state.wy.us

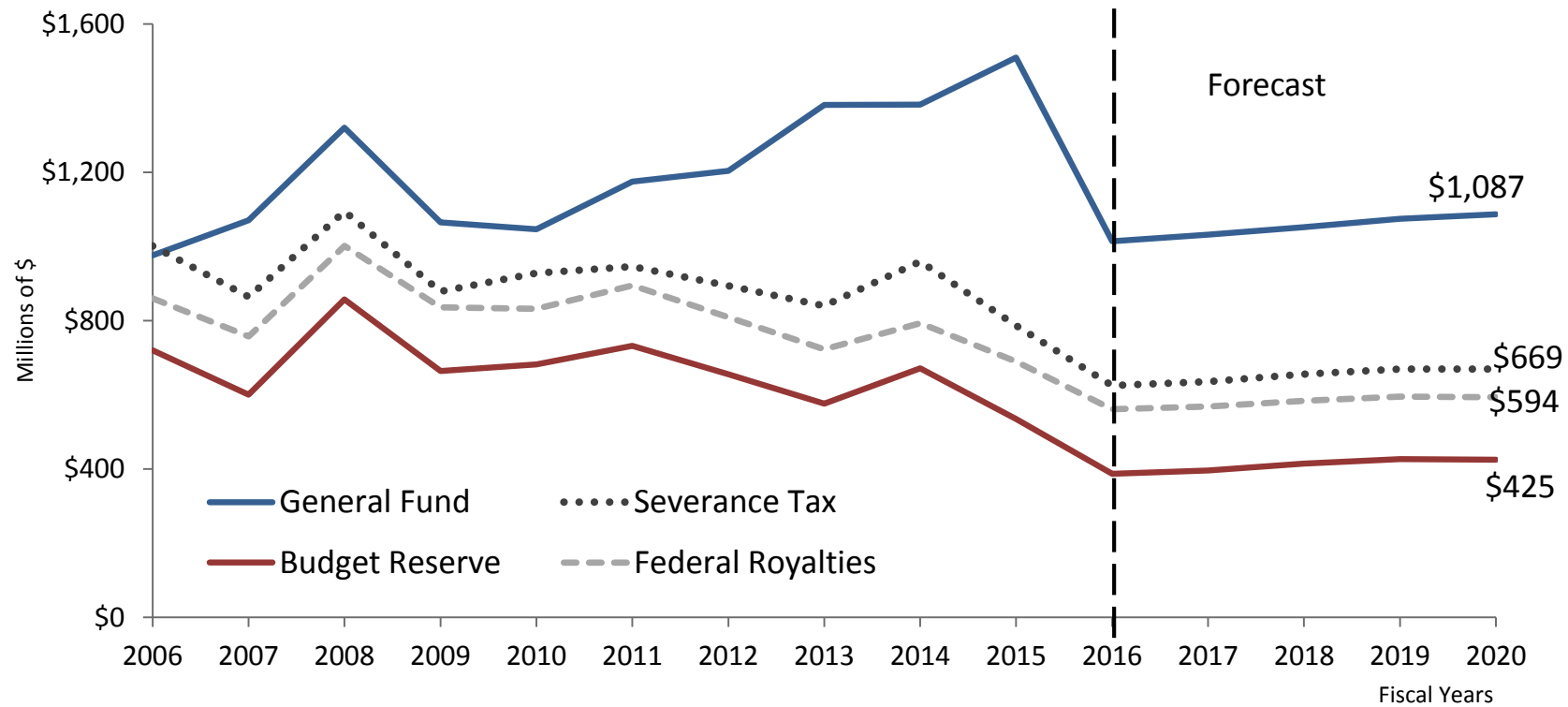
It has been the best of times

- Wyoming saw extraordinary growth in revenues from Natural Resources.
- Had a great run in the Stock Market especially after 2010.
- Fixed income was great too - much better than today.
- ❖ After lean times (1990s), we got budget religion at about the same time we saw the beginning of a natural resource windfall.

Here is what happened to Wyoming's Total State Portfolio since 2002



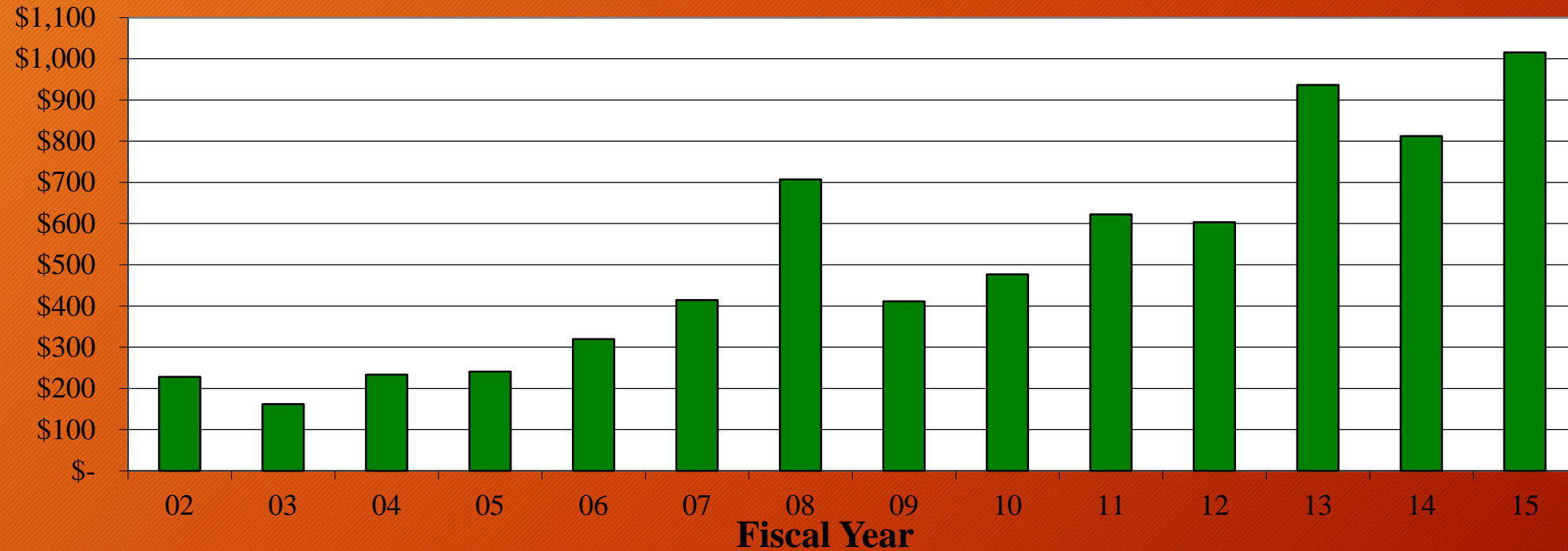
Major Revenue Streams — Historical and Projected



Very large investment gains were realized (but not forecasted) in 2008, 2011, 2012, 2013, 2014, and 2015. For FY 2015, investment income accounted for 40.3% of all General Fund revenues.

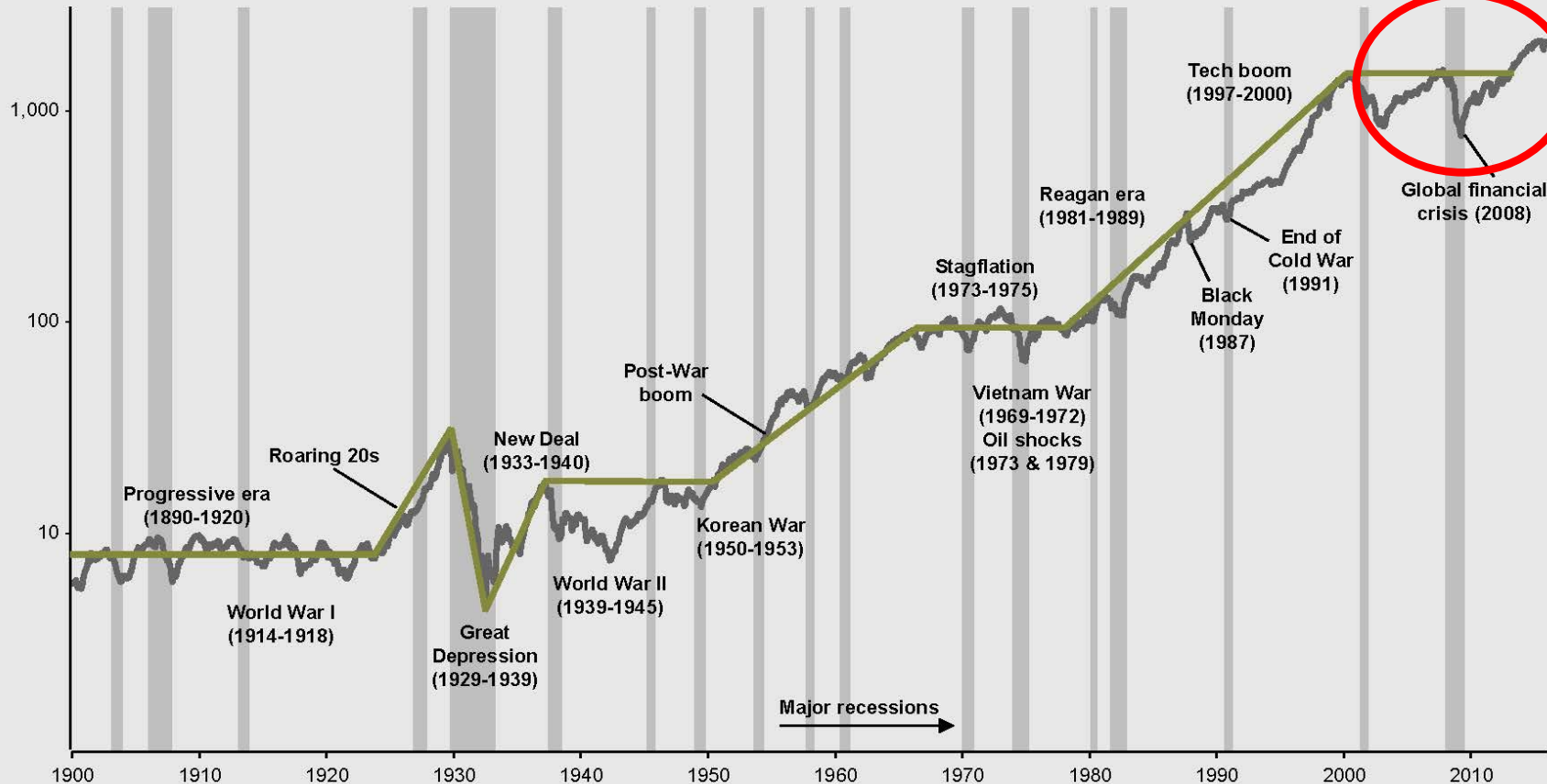
Source: January 2016 CREG Forecast.

And here is what the earnings (in millions of \$) from our investments to the budget since 2002 have looked like. No wonder we felt so good.



S&P Composite Index

Log scale, annual

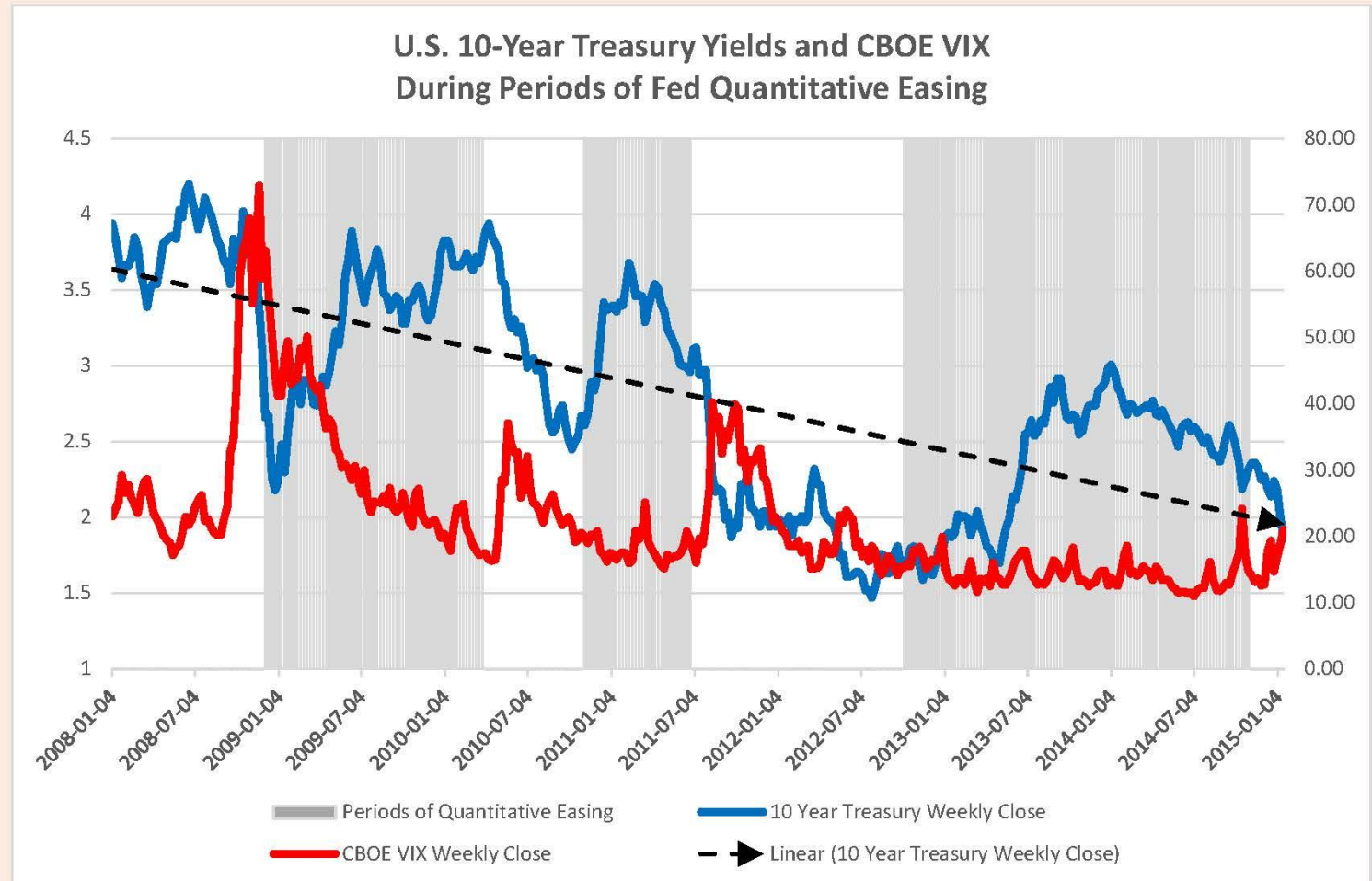


The last 15 years have been ok too.

Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.
Data shown in log scale to best illustrate long-term index patterns.
Past performance is not indicative of future returns. Chart is for illustrative purposes only.
Guide to the Markets – U.S. Data are as of December 31, 2015.

The Fed's Zero Interest Rate and Quantitative Easing Policies may have had Less Impact on Long Term Interest Rates than is Commonly Believed

- It seems clear, from the behavior of global interest rates and disinflationary trends since the Great Recession, that the global capital glut/weak demand for capital (accompanied by insufficient demand for production), not monetary policy, was exerting downward pressure on interest rates all along.
- In contrast, Fed policy had a demonstrably positive impact on equity markets which proved unnerved at the end of each period of QE, but re-stabilized as rates fell in between QE rounds and during them. One might therefore contemplate the question of what policy was principally being responsive to.

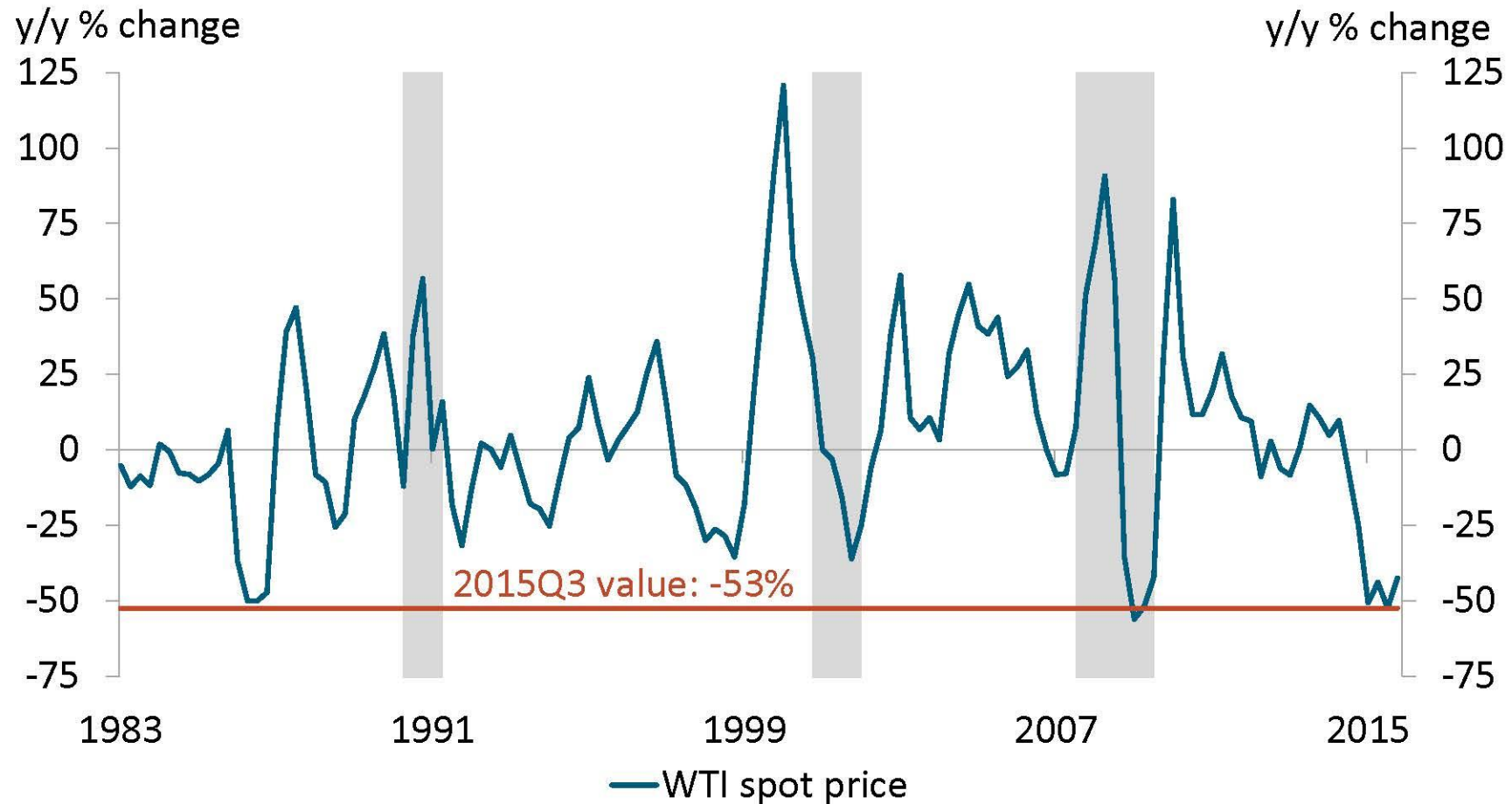


Things changed in fact it sure seemed like a “Perfect Storm”

- Commodity Price Collapse
- Very low yields for fixed income
- 2015 3rd worst year for investors globally
 - No place to hide
 - (EOCY Wyoming met income targets but lacked gains)
- A strong dollar hurt US exports
- Uncertainty
 - Regulation
 - Central Bank Activity
 - China
 - EU and Brexit
 - And now an Election

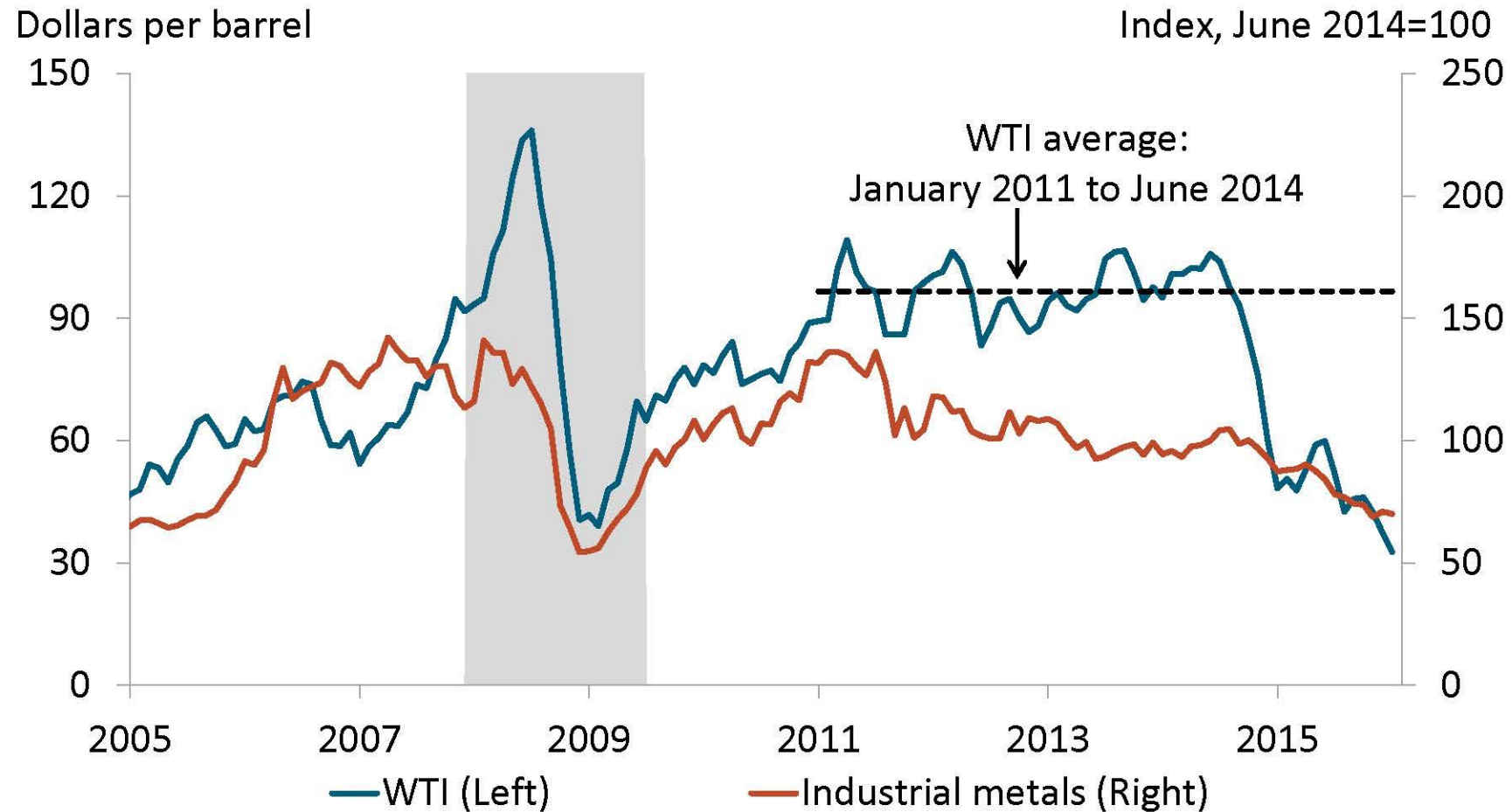


The recent decline in oil prices is large by historical standards



Source: EIA, NBER, Haver Analytics

Commodity prices outside of oil have also fallen, but not as much as oil

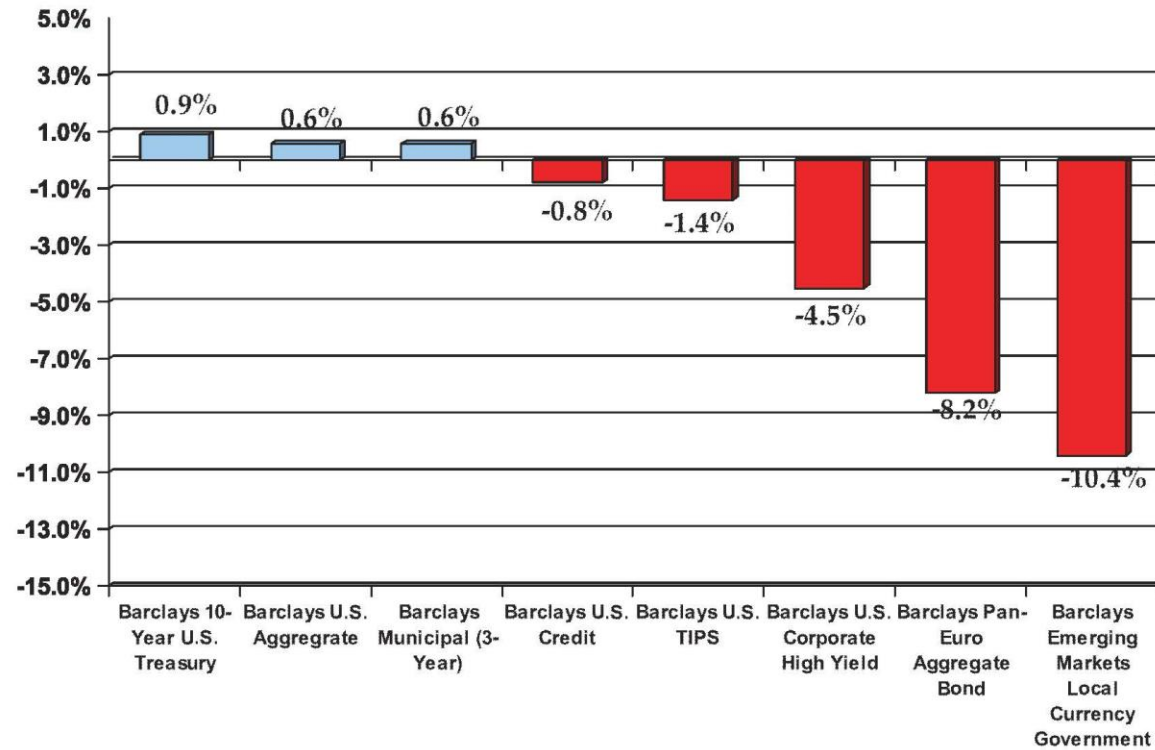


Source: EIA, NBER, WSJ, S&P, Haver Analytics

Stocks have not been exactly kind since August 1, 2015



Fixed Income Returns: 2015



Source: Barclays (in U.S. dollars).

STIFEL

Fixed Income

Five Worst Years Since 1926

Stocks, Bonds, Cash, and Commodities

Year	U.S. Stocks	Long-Term Bonds	Cash	Commodities	Best Return
1937	-35.0%	0.2%	0.3%	-10.4%	0.3%
1931	-43.4%	-5.3%	1.1%	-20.6%	1.1%
2015	1.4%	-3.7%	0.1%	-23.1%	1.4%
1953	-1.0%	3.6%	1.8%	-3.1%	3.6%
2001	-11.9%	3.7%	3.9%	-16.3%	3.9%

Source: Doubleline (U.S. stocks per S&P 500 Index, Long-Term bonds per 30 Year U.S. Treasury Bond, Cash per 3-Month U.S. Treasury Bill, and Commodities per Commodity Research Bureau spot index).

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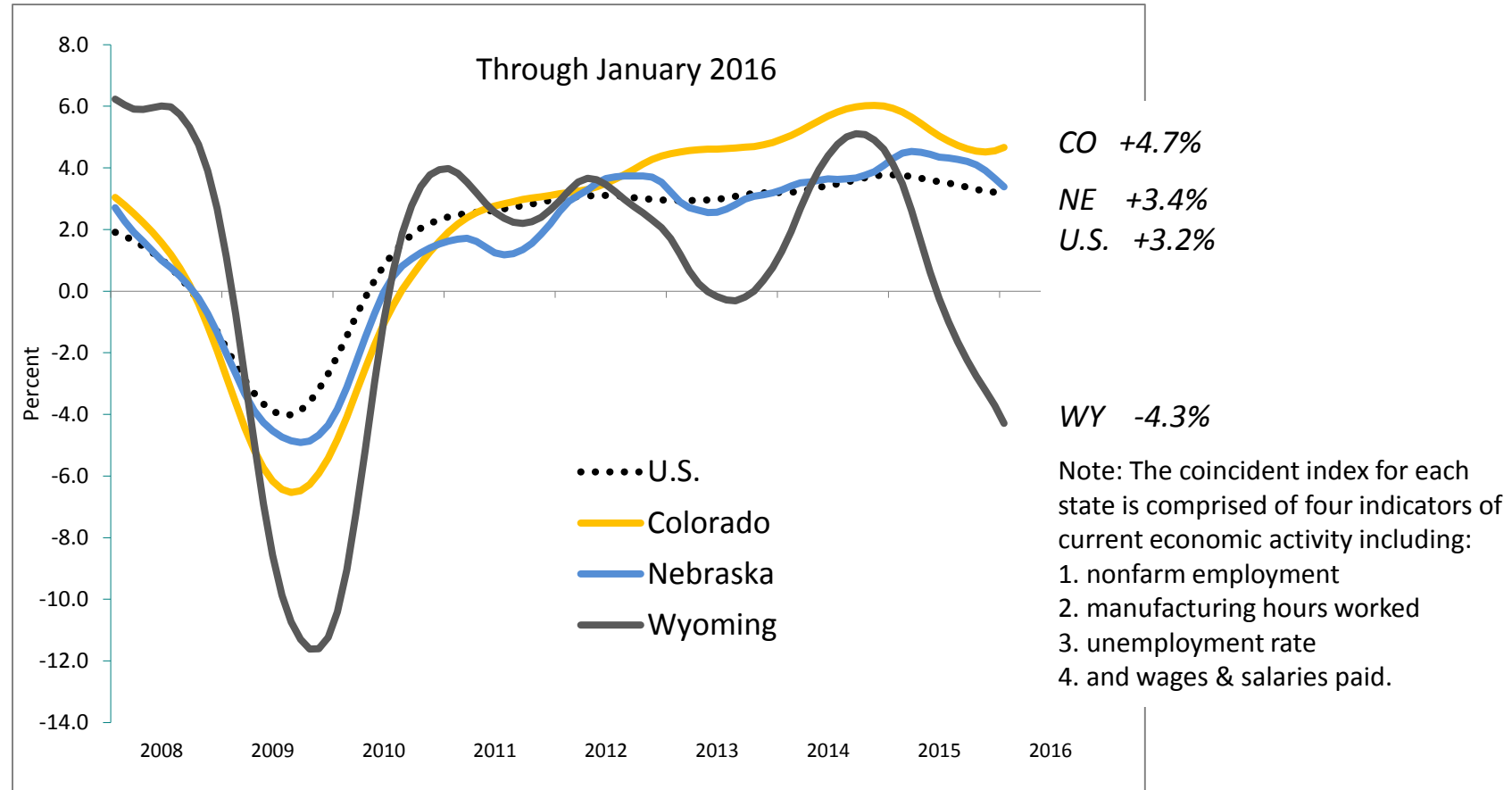
Equities

And Wyoming?



Coincident Index: WY, CO, NE, & U.S.

Year-over-Year Percent Change in Index Values

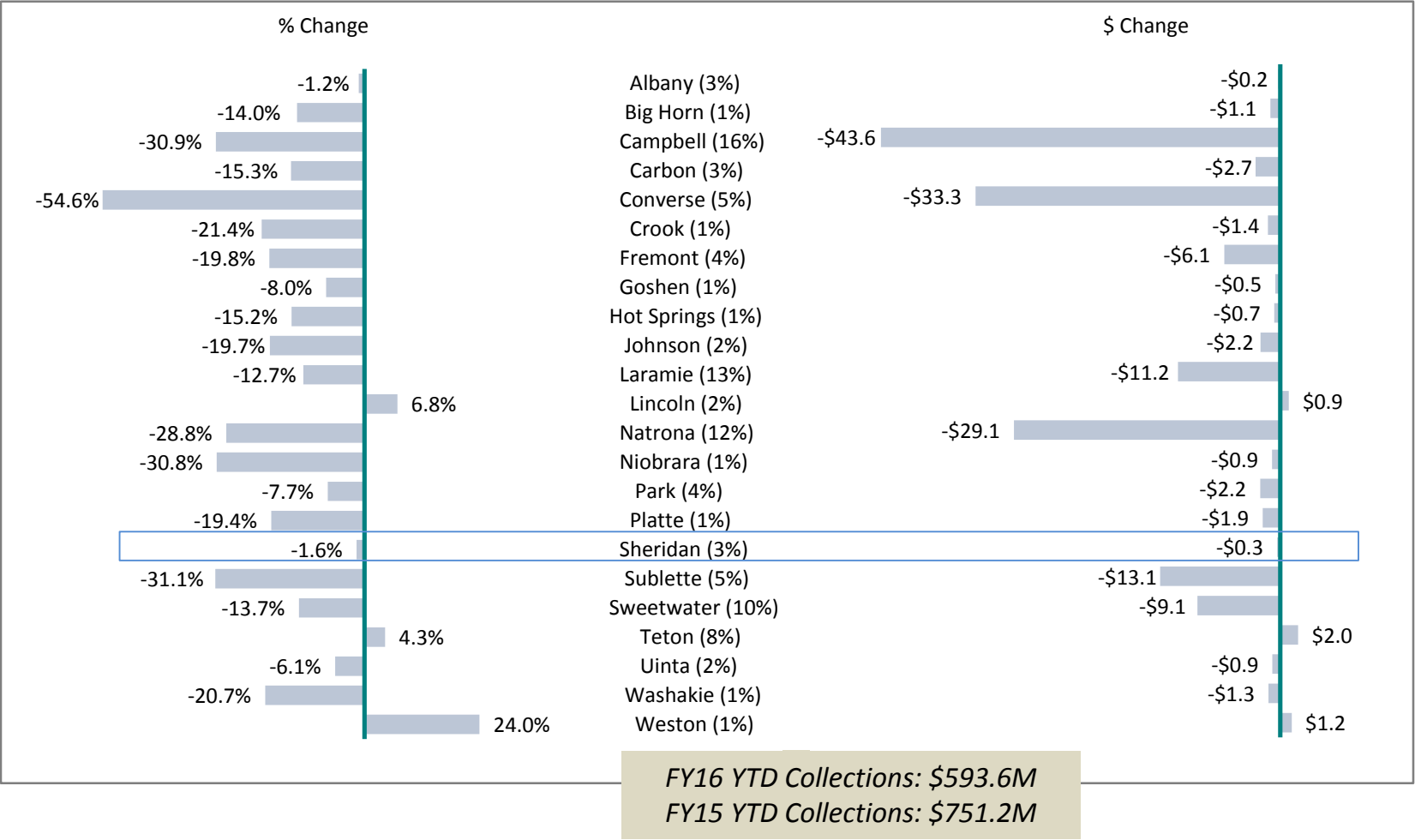


Source: Federal Reserve Bank of Philadelphia.

WY Statewide 4% Sales and Use Tax Collections by County

Percent Change and Dollars (Millions)

Year-to-Date Fiscal 2016 vs. Fiscal 2015 — Eleven Months of Collections



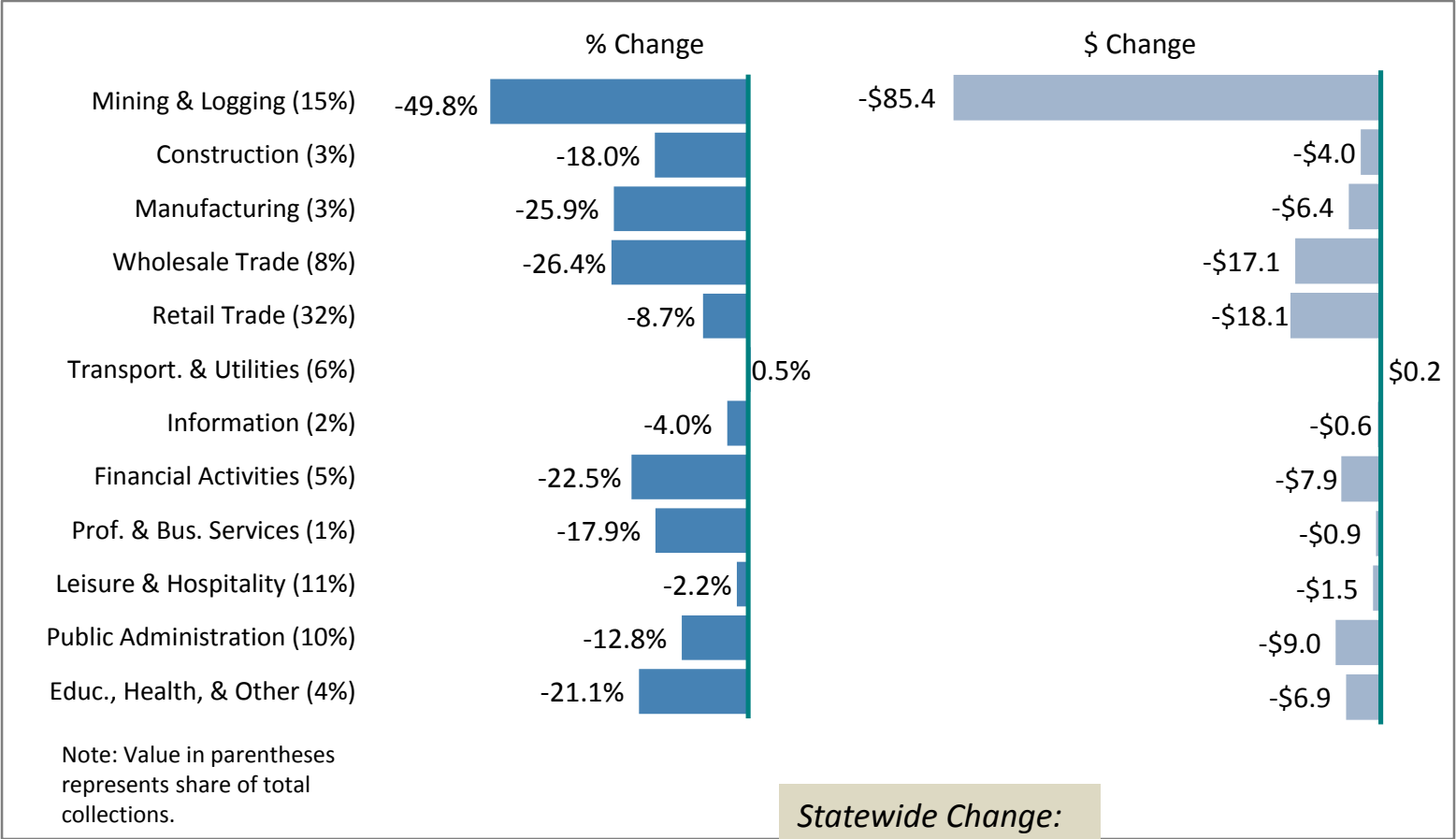
Source: WY Dept. of Revenue.
Note: Includes both the state and local shares of the state-wide 4% sales and use tax collections on a cash receipts basis. Value in parentheses represents share of total collections.



WY Statewide 4% Sales and Use Tax Collections by Industry

Percent Change and Dollars (Millions)

Year-to-Date Fiscal 2016 vs. Fiscal 2015 — Eleven Months of Collections



Source: WY Dept. of Revenue.

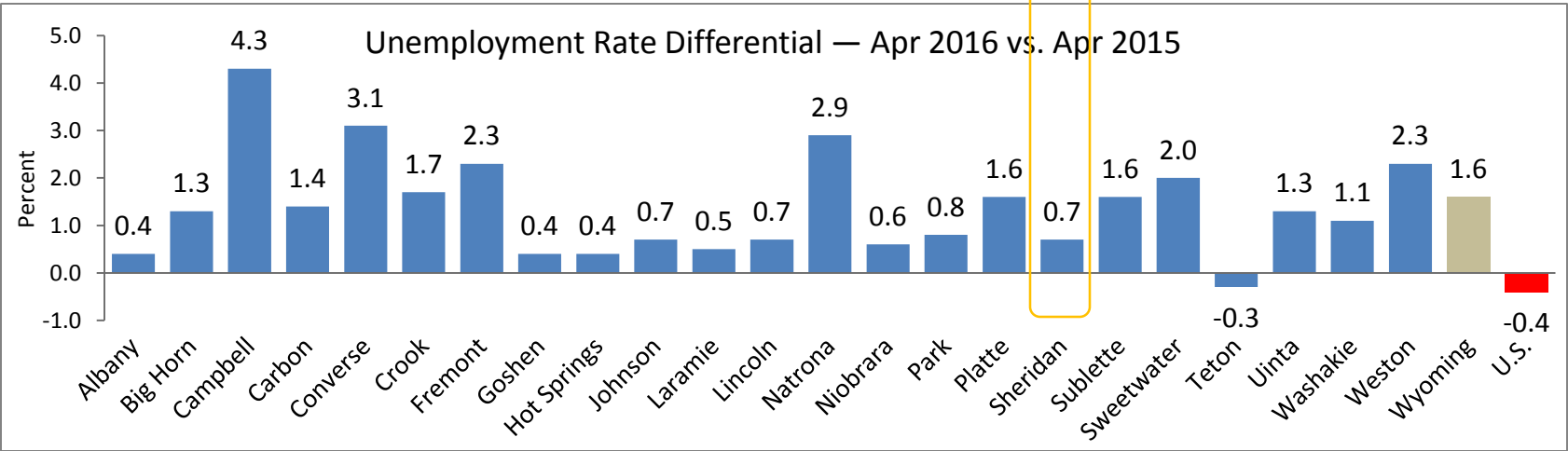
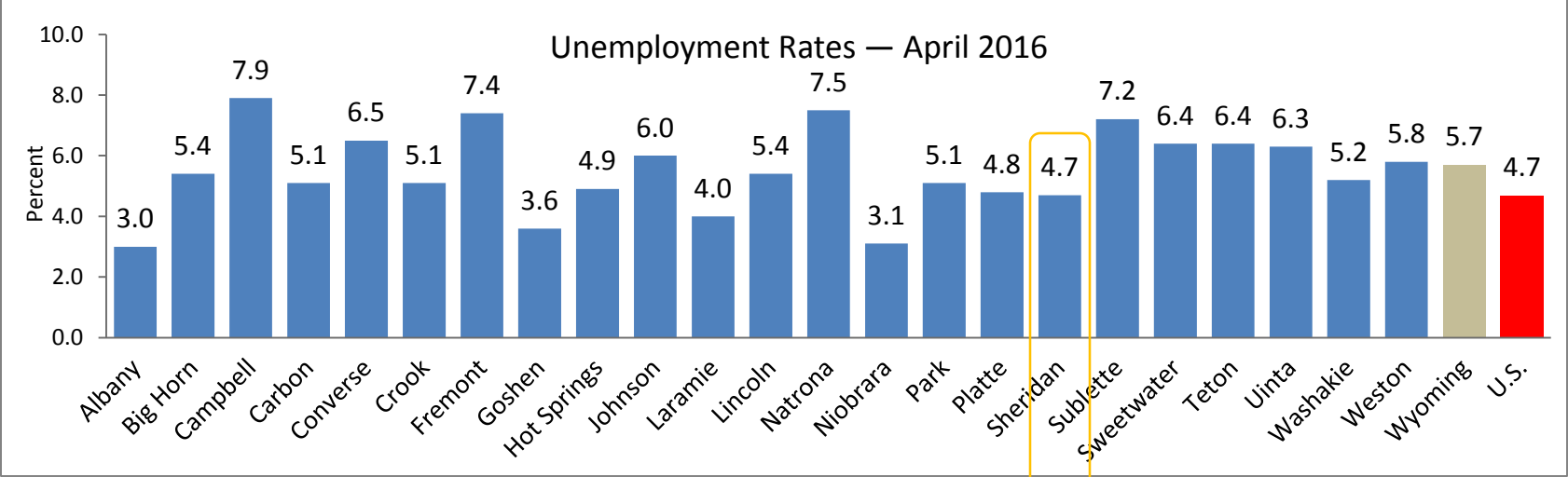
Note: Includes both the state and local shares of the state-wide 4% sales and use tax collections on a cash receipts basis.



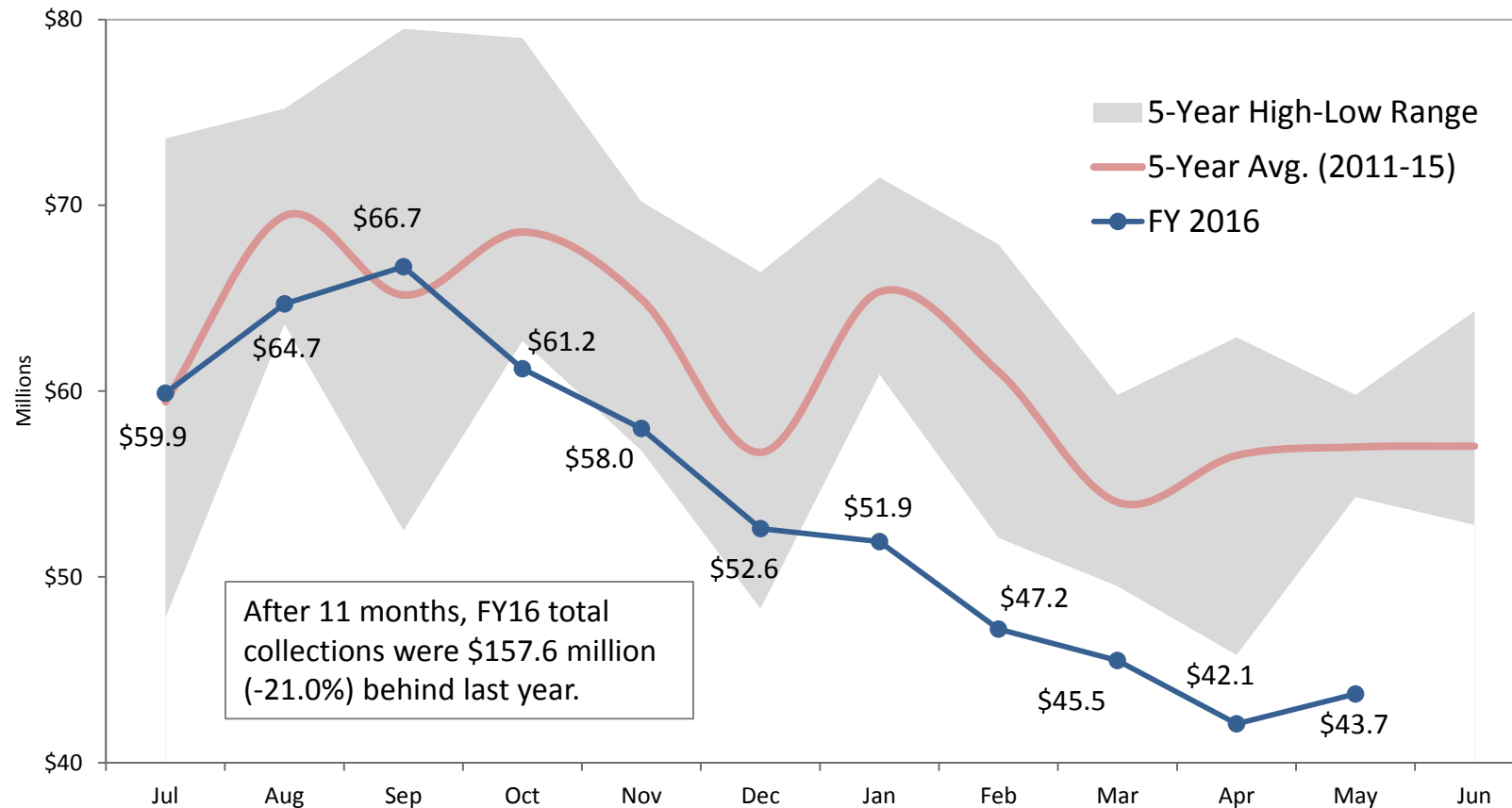
WY Unemployment Rates

April 2016 vs. April 2015 (not seasonally adjusted)

Source: U.S. Bureau of Labor Statistics.



WY Statewide 4% Sales and Use Tax Collections

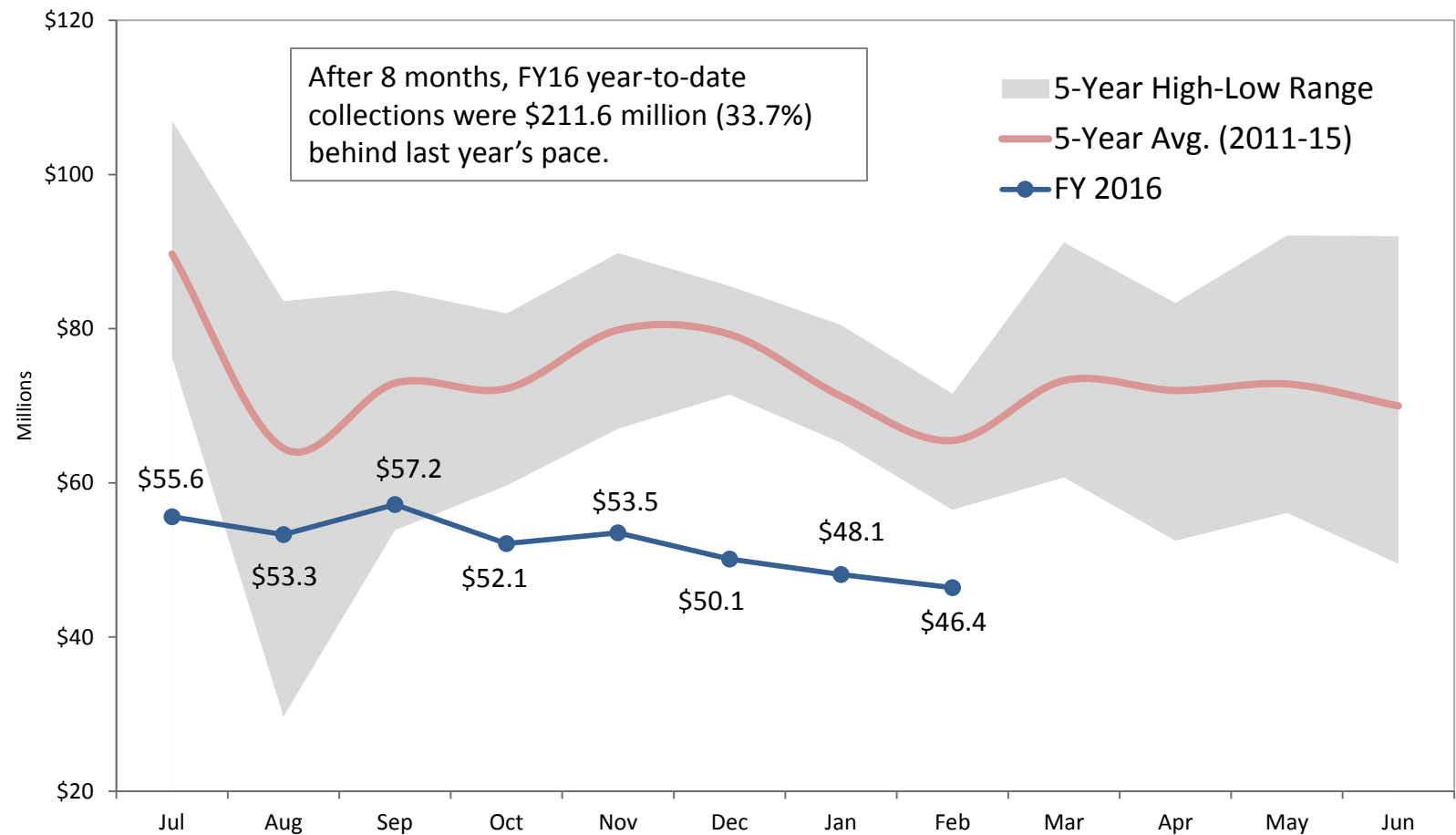


Source: WY Dept. of Revenue.

Note: Includes both the state and local shares of the state-wide 4% sales and use tax collections on a cash receipts basis.



WY Statewide Severance Tax Collections



Source: WY Dept. of Revenue.
Note: Includes severance taxes collected on all minerals in Wyoming on a cash receipts basis.



So how did we react?



There were a couple of plans. But, we chose the Legislature's with all due respect to my friends there...

So what do we do?

(Warren Buffett might suggest...)

Don't save what is left after spending,

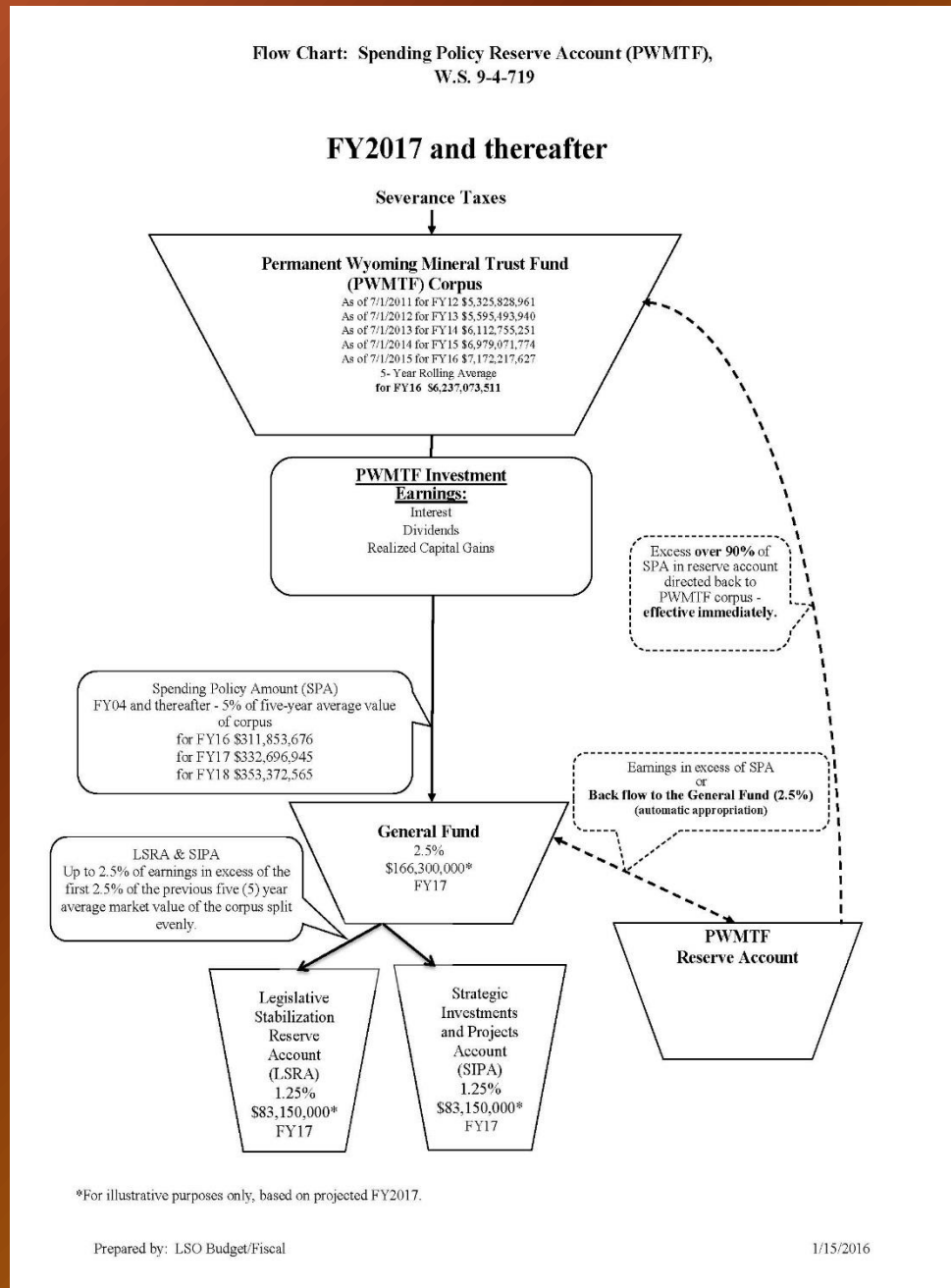
But spend what is left after saving.



Remember Spending Policies? Those are the policies meant to stabilize anticipated revenue streams between years.

This is what the one for the PMTF looks like.

Perhaps it is time to take a look at each of them in light of lower normal revenue flows.



The 3 Efforts: 1st Enhance Local Government Opportunity

- ✓ Revised Wyoming Investment Statutes to incorporate new securities through review process of the SLIB.
 - Expanded opportunities to cooperate bonds outlined in Master Investment Policy posted on Website: treasurer.state.wy.us
 - Other projects - exploring a longer less-liquid option along the lines of our Wyo-Star program
- Work with the Legislature and others to review and update Spending Policies - the policies governing expectations about what Investments will return.

2nd Is “cheap” really less expensive or even good business? Building a better Office!

- Implied Risks of being cheap
 - We are one of the biggest Sovereign Wealth Funds in the world our portfolio has grown 300% but we have not.
 - We have essentially the same staff today that we did in 2006 paid about the same.
 - Audit for risk, for performance, accountability, and governance.
- Need to differentiate the pools by objective and purpose. Foundation model.
- Cannot implement best practices with expanded capabilities in house - lack of capacity.
(every basis point saved = \$1.9 million in returns to Wyoming.)

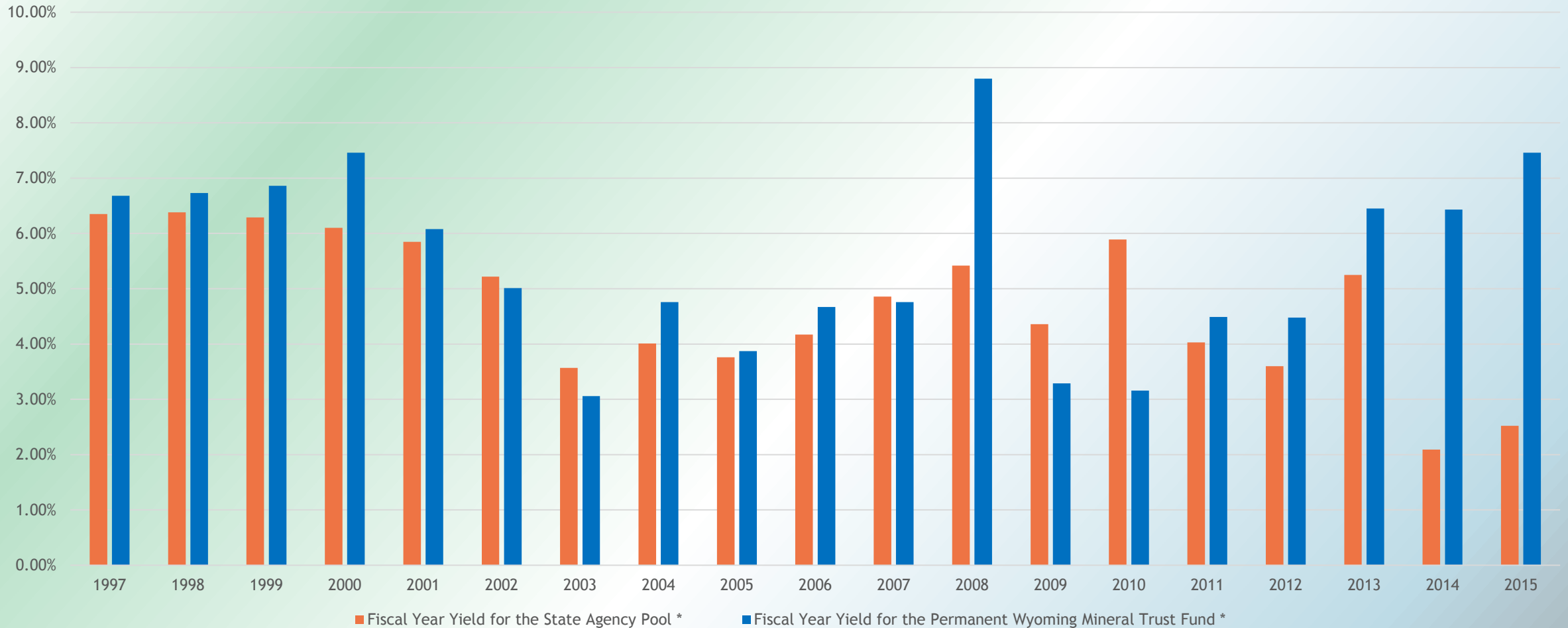
And 3rd:

Constitutional Amendment A

Currently, the Wyoming Constitution allows the legislature to authorize the investment of public employee retirement systems funds and permanent state funds in equities, such as stock or shares in private or public companies. Permanent funds of the state include funds designated as permanent funds by the Constitution. The Wyoming Constitution does not allow the state to invest any other funds in equities.

The adoption of this amendment would allow the legislature, by two-thirds vote of the members of both houses, to authorize the investment of additional specified state funds in equities.

Comparison study of yield if non-Permanent funds were invested like the PMTF*



*Although if **Constitutional Amendment A** had been in effect for the SAP, it would not have been invested exactly like the Permanent Funds; it still might have had some equity exposure. If it had been allowed to compound, Wyoming might have been substantially better off today and arguably better positioned defensively for the future. In these lower rate for longer times with the possibility of rates rising, Wyoming needs to think long and hard about how to preserve its capital not just garner returns. Passing **Amendment A** would give the Legislature, Treasurer, and SLIB another tool to address the challenges of these unprecedented times.

But because of liquidity requirements for non-permanent funds the asset mix might more closely resemble a traditional 60/40 Portfolio.



Questions and Comments?

What is the best way to
inform voters about
Constitutional Amendment A?

<https://treasurer.state.wy>

Thank You

Thanks to Wyoming Economic Analysis Division and the Wyoming Taxpayers